

**East Duchesne Culinary
Water Improvement District**

**Financial Statements
With Other Government Reports**

Year Ending December 31, 2006

East Duchesne Culinary Water Improvement District

**Financial Statements
With Other Government Reports**

For the year ending December 31, 2006

East Duchesne Culinary Water Improvement District

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AYCOCK, MILES & ASSOCIATES, CPAs, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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AMERICAN INSTITUTE
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Independent Auditors' Report

To the Board of Directors
East Duchesne Culinary Water Improvement District

We have audited the accompanying financial statements of the proprietary fund type activity of the East Duchesne Culinary Water Improvement District as of and for the year ended December 31, 2006. These financial statements are the responsibility of District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the proprietary fund type activity of the District as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, please refer to the table of contents for page numbers, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Aycock, Miles & Associates, CPAs

July 25, 2007

Management's Discussion and Analysis

As management of the East Duchesne Culinary Water Improvement District (the District), we offer readers of the District's financial statements this narrative overview and analysis of financial activities of the District for the fiscal year ended December 31, 2006.

Financial Highlights

- Assets exceeded liabilities at closest year-end: $\$2,544,572 - \$127,599 = \$2,416,973$. Of this amount, \$80,630 is unrestricted and available to meet the District's ongoing obligations.
- Unrestricted cash increased \$17,133.
- Net assets increased \$206,436 compared to a net increase in year 2005 of \$59,637. Increase in water revenue of \$91,575 or 30% and a \$74,750 or 245% connection fee increase contributed to the significant net asset increase.
- Unrestricted net assets increased \$139,535.
- Long-term and current portion of long-term debt decreased \$76,802 or 41%.
- The District's total assets of \$2,544,572 were 5.4% unrestricted cash and accounts receivable.
- Current assets increased \$41,786 due to the significant revenue increases previously mentioned.
- Total liabilities decreased \$90,349 or 41%.
- Capital assets net of accumulated depreciation increased \$62,900 or 3%.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: 1) fund financial statements for a proprietary fund type (business-type activity), and 2) notes to the financial statements.

Fund financial statements—A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. This District is a proprietary fund only.

Proprietary funds—There are two types of proprietary funds: enterprise and internal service funds. The District maintains only one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses an enterprise fund to account for its operation of the East Duchesne Culinary Water Improvement District.

Proprietary funds provide the same type of information as government-wide financial statements, only in more detail. The proprietary fund financial statements provide information on the operation of the District. This fund is the District's only major fund. Because the District's only reporting unit is a proprietary fund and the reporting format is similar to government-wide reporting the presentation of government-wide financials statements are not required and are not necessary.

The basic proprietary fund financial statements can be found on the pages listed in the table of contents.

Notes to the financial statements—The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on the pages listed in the table of contents.

Financial Analysis of the Proprietary Fund

Net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$2,416,973 at the close of the most recent fiscal year.

The District's net assets are comprised of three components:

- Unrestricted net assets are 3.3% of the total. Unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.
- Restricted net assets are 0.2% of the total. Restricted net assets comprise balances that have been restricted due to legislation, debt covenants, and other legal requirements.
- Capital assets (e.g., machinery, equipment, etc.) comprised 96.5% of total net assets, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay any debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate any liabilities.

Net Assets	2006	2005
Current assets	\$ 137,829	\$ 96,043
Other non-current assets	11,400	-
Net capital assets	<u>2,395,343</u>	<u>2,332,443</u>
Total assets	2,544,572	2,428,486
Current liabilities	68,599	154,948
Long-term liabilities	<u>59,000</u>	<u>63,000</u>
Total liabilities	<u>127,599</u>	<u>217,948</u>
Net assets:		
Invested in capital assets, net of related debt	2,332,343	2,265,443
Restricted	4,000	4,000
Unrestricted	<u>80,630</u>	<u>(58,905)</u>
Total net assets	<u>\$ 2,416,973</u>	<u>\$ 2,210,538</u>

The District's net assets increased by \$206,436 in the most recent fiscal year. Key elements of this increase are as follows:

<u>Change in Net Assets</u>	<u>2006</u>	<u>2005</u>
Revenues:		
Water sales	\$ 398,606	\$ 307,031
Connection fees	105,250	30,500
Miscellaneous	6,983	8,832
Property taxes	(152)	950
Interest earnings	832	468
Total revenues	511,519	347,781
Expenses:		
Wages & benefits	78,987	67,551
Water purchases & treatment	99,992	96,249
Operations	50,430	53,605
Interest	2,480	2,742
Depreciation	73,194	67,997
Total expenses	305,083	288,144
Increase (decrease) in net assets	<u>\$ 206,436</u>	<u>\$ 59,637</u>

The District's water sales increased because of increased usage, customer growth and a large increase in connections during the year.

The available cash resources of the District increased because operating cash flow exceeded line extensions and loan payments. Current assets less current liabilities will fund about 2 ½ months operating expenses including depreciation and about 3 ½ months operating expenses without depreciation.

Fund Budgetary Highlights

	<u>Original</u>	<u>Amended</u>	<u>Actual</u>
Revenues	\$ 330,393	\$ 330,393	\$ 511,519
Expenses	(283,827)	(293,827)	(305,083)
Net Income	<u>\$ 46,566</u>	<u>\$ 36,566</u>	<u>\$ 206,436</u>

Capital Asset and Debt Administration

Capital assets—The District increased its investment in capital assets by \$136,094 for the most recent year ending December 31, 2006. Accumulated depreciation increased \$73,194. Net book value of investments in capital assets increased by \$62,900.

Net Capital Assets	2006	2005
Water system	\$ 2,334,938	\$ 1,873,479
Land, right-of-way, & water shares	52,923	52,923
Equipment	7,481	8,782
Construction in process	-	397,259
Total (net of depreciation)	<u>\$ 2,395,343</u>	<u>\$ 2,332,443</u>

Long-term debt—The District's long-term liability activity during the year is as follows:

Long-term Debt	2005	Increase	Decrease	2006	Current Portion
Rev. Bond, Utah Div. of Finance	\$ 67,000	\$ -	\$ (4,000)	\$ 63,000	\$ 4,000
Johnson Water agreement	123,742	-	(72,802)	50,940	50,940
Total	<u>\$ 190,742</u>	<u>\$ -</u>	<u>\$ (76,802)</u>	<u>\$ 113,940</u>	<u>\$ 54,940</u>

Economic Factors and Next Year's Budgets and Rates

For the year 2007, the District has budgeted total revenues for \$407,032 and total expenses for \$319,228. Budgeted revenues are about 80% of 2006's actual revenues. Budgeted expenses are about 105% of 2006's actual expenses. There are some points of interest between the fiscal year 2007 budget and the 2006 actual:

- Revenues are expected to decrease to 80% of 2006 because connection fees were very high in 2006.
- Expenses are expected to be very similar.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the East Duchesne Culinary Water Improvement District, Attn: Lee Moon, P.O. Box 319, Duchesne, UT 84066.

East Duchesne Culinary Water Improvement District
STATEMENT OF NET ASSETS
Proprietary Fund
December 31, 2006

	<u>2006</u>
Assets	
Current Assets:	
Cash	\$ 74,547
Accounts receivable	42,412
Allowance for doubtful receivable accounts	(5,730)
Property tax receivable	-
Installment receivable, current portion	<u>26,600</u>
Total Current Assets	137,829
Noncurrent Assets	
Capital Assets:	
Water system	3,189,745
Land, right-of-ways and water shares	52,923
Equipment	14,026
Office equipment	3,206
Construction in process	-
Less: Accumulated depreciation	<u>(864,557)</u>
Net Capital Assets	2,395,343
Other Assets:	
Installment receivable, noncurrent portion	<u>11,400</u>
Total Other Assets	11,400
Total Assets	<u>\$ 2,544,572</u>
Liabilities and Net Assets	
Current Liabilities:	
Accounts payable	\$ 11,846
Accrued interest	1,313
Accrued expenses	-
Refundable deposits	500
Fixed asset note payables	50,940
Current portion, long-term debt	<u>4,000</u>
Total Current Liabilities	68,599
Noncurrent Liabilities:	
Long-term debt, revenue bond	<u>59,000</u>
Total Long-term Liabilities	59,000
Total Liabilities	127,599
Net Assets:	
Invested in capital assets, net of related debt	2,332,343
Restricted	4,000
Unrestricted	<u>80,630</u>
Total Net Assets	2,416,973
Total Liabilities and Net Assets	<u>\$ 2,544,572</u>

East Duchesne Culinary Water Improvement District
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS--Proprietary Fund
Year ending December 31, 2006

	<u>2006</u>
Operating Income:	
Water sales	\$ 398,606
New connection fees	105,250
Miscellaneous	<u>6,983</u>
Total Operating Income	510,839
Operating Expenses:	
Plant:	
Water treatment	81,658
Untreated water purchases	18,334
Salaries	28,653
Benefits	12,094
Contract labor	12,097
Outside services	696
Supplies	11,115
Miscellaneous	19
Depreciation	73,194
Insurance	1,661
Interest	2,480
Utilities	12,034
Administrative:	
Salaries	23,232
Benefits	15,008
Supplies	1,673
Telephone	2,000
Miscellaneous	162
Advertising	299
Board meeting expenses	5,278
Other	617
Professional fees	1,100
Travel	<u>1,679</u>
Total Operating Expenses	<u>305,082</u>
Operating Income/(Loss)	205,756
Nonoperating Income (Expenses):	
Tax revenues	(152)
Interest income	<u>832</u>
Total Nonoperating Income/(Expense)	<u>680</u>
Net Income/(Loss)	206,436
Net assets--beginning of year	<u>2,210,537</u>
Net assets--end of year	<u>\$ 2,416,973</u>

East Duchesne Culinary Water Improvement District
STATEMENT OF CASH FLOWS
Proprietary Fund
Year ending December 31, 2006

	<u>2006</u>
Cash Flows from Operating Activities:	
Cash received from water sales	400,552
Cash received from hook-ups	67,250
Cash received from miscellaneous sources	7,382
Cash paid to suppliers and vendors	(162,062)
Cash paid for salaries and employee benefits	(80,547)
Interest paid	(3,225)
Net Cash Flow Provided by (used in) Operations	<u>229,350</u>
Cash Flows from Investing Activities:	
Interest income	832
Purchase of water system additions	(136,094)
Net Cash Flow Used By Investing	<u>(135,262)</u>
Cash Flows from Financing Activities:	
Payment of fixed asset note payables	(72,802)
Payment of long-term note	(4,000)
Net Cash Flow Used By Financing	<u>(76,802)</u>
Cash Flows from Non Financing Activities:	
Property taxes	(153)
Net Cash Flow From Non-Financing	<u>(153)</u>
Net increase (decrease in cash)	17,133
Cash - Beginning of Year	<u>57,414</u>
Cash - End of Year	<u><u>\$ 74,547</u></u>
Reconciliation of Direct Method for	
Cash Flows from Operating Activities	
Operating Income (loss)	\$ 205,756
Reconciliation of net income (loss) to net cash:	
Depreciation	73,194
(Increase)/decrease in accounts receivable	(36,053)
Increase/(decrease) in accounts payable	(11,641)
Increase/(decrease) in accrued expenses	(2,306)
Increase/(decrease) in refundable deposits	400
Net Cash Flow Provided/(Used) by Operations	<u><u>\$ 229,350</u></u>

See accompanying notes. Page 9

East Duchesne Culinary Water Improvement District
Notes to Financial Statements
December 31, 2006

NOTE 1 Summary of Significant Accounting Policies

Reporting Entity—The accounting policies of East Duchesne Culinary Water Improvement District conform to generally accepted accounting principles as applicable to governmental units. The District has no component units and is not a component unit of another entity according to the standards set forth by GASB No. 14. The following is a summary of the more significant policies.

Government-Wide and Fund Financial Statements—The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent of fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privilege provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation—The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports only one proprietary fund for which presentation is similar to the government-wide format. Therefore, only proprietary enterprise fund format will be reported in the financial statements.

East Duchesne Culinary Water Improvement District
Notes to Financial Statements
December 31, 2006

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are operating receipts from the sale of water and water hook-ups.

Application of Accounting Pronouncements—Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Deposits and Investments—The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Receivables and Payables—All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles.

Property Taxes—The District has in previous years assessed a property tax. However, with water sales and connection fee revenues exceeding operating expenses the District is currently not assessing a property tax.

Inventories and Prepaid Items—All inventories are valued at cost using the first-in/first-out method. Inventories of proprietary funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Inventory balances are immaterial at year-end.

Restricted Assets—At times, the District may have funds set aside that are legally restricted or their use is limited by certain contracts. Restricted funds will be expended first when possible.

Capital Assets—Capital assets, which include property, plant, equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual significant cost and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

East Duchesne Culinary Water Improvement District
Notes to Financial Statements
December 31, 2006

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units if any, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water system	40-50
Buildings	15-40
Equipment	7-8
Vehicles	5
Office equipment	5

Compensated Absences—The District's policy is to permit employees to accumulate earned but unused personal leave and sick leave benefits. There is no liability for unpaid accumulated sick leave since it is the District's policy to record the cost of sick leave only when it is used. Vacation time is accrued when incurred and reported as a liability at that time.

Long-term Obligations—In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity—In the fund financial statements, proprietary funds report equity in a manner similar to the government-wide statements.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budgetary Data—Budgets are presented on the modified accrual basis of accounting for all governmental funds of the District. The following procedures are used in establishing the budgetary data:

- During November and December of each year, the District prepares the budget.
- The budget shall be in effect subject to later amendment and shall be available for public inspection.
- Public advertising and public budget hearings are conducted to comply with Utah State law.
- By December 15, the budget is legally and formally adopted by the Board.
- The Board may increase (amend) the total budget through Board resolution.

East Duchesne Culinary Water Improvement District
Notes to Financial Statements
December 31, 2006

NOTE 2 Cash & Investments

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The District follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of District funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Summary of Deposits and Investments

Reconciliation to the Balance Sheet			
Balance Sheet		Deposits & Investments	
Cash	\$ 74,547	Zions Checking	\$ 56,920
Savings	-	Zions Money Market	8,673
Restricted cash	-	Zions C.D.	8,954
Totals	<u>\$ 74,547</u>		<u>\$ 74,547</u>

Deposits

Custodial Credit Risk—Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. As of December 31, 2006, \$0 of the District's bank balances of \$69,014 (carrying balance of \$65,593) was uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United State Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

East Duchesne Culinary Water Improvement District
Notes to Financial Statements
December 31, 2006

As of December 31, 2006, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Zions Certificate of Deposit	8,954	-	8,954	-	-

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Except for funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, the Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years. For funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, Rule 2 of the Money Management Council does not allow the dollar-weighted average maturity of fixed income securities to exceed ten years.

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

At December 31, 2006, the District had the following investments and quality ratings:

Investment Type	Fair Value	Quality Rating			
		AAA	AA	A	Unrated
Zions Certificate of Deposit	8,954	-	-	-	8,954

Concentration of Credit Risk—Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

East Duchesne Culinary Water Improvement District
Notes to Financial Statements
December 31, 2006

NOTE 3 Long-term Debt

East Duchesne Culinary Water Improvement has the following long-term obligations:

- Note A State of Utah, Board of Water Resources Revenue Bond - yearly principal payments ranging from \$4,000 to \$5,000, starting March 1, 1994, \$100,000 borrowed at 2.5%, matures March 1, 2020.
- Note B Note Payable to Johnson Water Improvement District, started in year 2004, payments vary based on water usage, borrowed at 0%, final payment expected calendar year 2007.
- Note C Note Payable to Larry Smith, starting year 2004, borrowed \$52,923 at 5.0%, annual principal payments about \$18,000, matures year 2006.

Long-term Debt	2005	Increase	Decrease	2006	Current Portion
Note A	\$ 67,000	\$ -	\$ (4,000)	\$ 63,000	\$ 4,000
Note B	106,101		(55,161)	50,940	50,940
Note C	17,641	-	(17,641)	-	-
	<u>\$ 190,742</u>	<u>\$ -</u>	<u>\$ (76,802)</u>	<u>\$ 113,940</u>	<u>\$ 54,940</u>

Schedule of Payments	Principal	Interest	Total
2007	54,940	1,575	56,515
2008	4,000	1,475	5,475
2009	4,000	1,375	5,375
2010	4,000	1,275	5,275
2011	4,000	1,175	5,175
2012-16	23,000	4,300	27,300
2017-20	20,000	1,250	21,250
	<u>\$ 113,940</u>	<u>\$ 12,425</u>	<u>\$ 126,365</u>

East Duchesne Culinary Water Improvement District
Notes to Financial Statements
December 31, 2006

NOTE 4 Fixed Asset Activity

Fixed Asset Activity	2005	Increase	Decrease	2006
Water system	\$ 2,656,392	\$ 533,353	\$ -	\$ 3,189,745
Land, right-of-way, & water shares (not depreciable)	52,923	-	-	52,923
Equipment	17,232	-	-	17,232
Construction in process	397,259	-	(397,259)	-
Sub-total	3,123,806	533,353	(397,259)	3,259,900
Accumulated depreciation	(791,363)	(73,194)	-	(864,557)
Fixed assets net of depreciation	<u>\$ 2,332,443</u>	<u>\$ 460,159</u>	<u>\$ (397,259)</u>	<u>\$ 2,395,343</u>

Note 5 Exposures to Risks of Loss

The District minimizes its exposure to risks of loss through the purchase of commercial insurance. The District considers uninsured exposure to risks of loss as immaterial.

Note 6 Accounts Receivable

Balances	2006	2005
Accounts receivable	\$ 42,412	\$ 43,970
Less allowance for doubtful accounts	(5,730)	(5,342)
Net accounts receivable	36,682	38,628
Installment receivable, current	26,600	-
Installment receivable, noncurrent	11,400	-
Total net receivables	<u>\$ 63,282</u>	<u>\$ 38,628</u>

Note 7 Major Customer

The District sold water to Johnson Water Improvement District throughout the year. The sales to Johnson Water Improvement District was \$173,688 of the total water sales of \$398,606 or 43.6% of water sales.

East Duchesne Culinary Water Improvement District
Notes to Financial Statements
December 31, 2006

Note 8 Employer Contributing to a Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

The District contributes to the Local Governmental Noncontributory Retirement System cost-sharing multiple-employer defined pension plans administered by the Utah Retirement Systems. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System and Public Safety Retirement System for employers with Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. For January to December, 2006, plan members in the Local Governmental Noncontributory Retirement System are required to contribute 0.00% of their annual coverage salary (0.00% is paid by the District for the employee) and the District is required to contribute an average 11.34% of their annual coverage salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Contributions. The District's contributions to the Local Governmental Noncontributory Retirement System for the years ending December 31, 2006, 2005, and 2004 were as follows. The contributions were equal to the required contributions for each year. Years 2005 and 2004 below are estimates.

Salary Subject to Retirement Contributions	Year Ended December 31	Employee Paid Contributions	Employer Paid for Employee Contributions	Employer Contributions
38,720	2006	n/a	-	4,391
35,200	2005	n/a	-	3,904
32,000	2004	n/a	-	3,314

The District participates in a 401(k) plan through Utah State Retirement. These assets are in the employees name and the District has no right to the 401(k) contributions. For the years 2006, 2005 and 2004, the District contributed on behalf of its employees \$1,355, \$1,056, and \$960, respectively.



AYCOCK, MILES & ASSOCIATES, CPAs, P.C.

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Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
East Duchesne Culinary Water Improvement District

We have audited the financial statements of East Duchesne Culinary Water Improvement District as of and for the year ended December 31, 2006, and have issued our report thereon dated July 25, 2007. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether East Duchesne Culinary Water Improvement District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards. Please refer to the accompanying schedule of findings and responses at items 2006-1 and 2006-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered East Duchesne Culinary Water Improvement District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. Please refer to findings 2006-3 thru 5.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider finding 2006-3 to be a material weakness.

Distribution

This report is intended for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Aycock, Miles & Associates, CPAs

July 25, 2007



AYCOCK, MILES & ASSOCIATES, CPAs, P.C.

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State Compliance Report

Board of Directors
East Duchesne Culinary Water Improvement District

We have audited the general purpose financial statements of East Duchesne Culinary Water Improvement District, Myton, Utah, for the year ended December 31, 2006 and have issued our report thereon dated July 25, 2007. Our audit included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Property Tax
- Other Compliance Requirements

The District received major assistance from the Community Impact Board of the State of Utah for a storage tank.

The management of East Duchesne Culinary Water Improvement District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed two instances of noncompliance with the general requirements referred to above and the applicable major grant specific requirements. Please see findings 2006-1 and 2006-2.

In our opinion, the East Duchesne Culinary Water Improvement District, Myton, Utah, complied, in all material respects, with the general compliance requirements identified above and major grant specific requirements for the year ended December 31, 2006.

Aycock, Miles & Associates, CPAs

July 25, 2007

Schedule of Findings and Management Responses

2006-1 The District did not have a fidelity bond according to Utah Code 51-7-15.

Management Response

The District manager will make arrangements to obtain a fidelity bond.

2006-2 The District's audit was submitted to the Utah State Auditor's office after June 30.

Management Response

The District will make additional effort to submit the audit in a timely manner.

2006-3 No bank statement review or bank statement reconciliation review was completed and documented.

Management Response

During monthly board meetings, a board member will review and initial the bank statements and bank statement reconciliations. During the review of the bank statements, a board member will review cleared disbursements.

2006-4 Invoices are initialed in order to document invoice review and approval.

Management Response

As the checks are being signed by board members, a board member will also initial the invoices.

2006-5 Accounts receivable and billing adjustments are not reviewed by management.

Management Response

The District's general ledger and billing software generates a report to review all subsequent changes to the initial billing cycle. This report is called the OCC register. A board member will review this report during monthly board meetings.